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DEMOGRAPHIA HOUSING AFFORDABILITY IN CANADA

2023 Edition: Data from 3rd Quarter 2022

Supplement to Demographia International Housing Affordability: 2023

BY WENDELL COX

DEMOGRAPHIA

FRONTIER CENTRE FOR PUBLIC POLICY

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WENDELL COX

Wendell Cox is a Senior Fellow at the Frontier Centre for Public Policy (Winnipeg). He is principal of Demographia.com, author of *Demographia World Urban Areas* and an author of *Demographia International Housing Affordability* (19 annual editions) and *Demographia World Urban Areas.* He earned a BA in Government from California State University, Los Angeles and an MBA from Pepperdine University. He served as a visiting professor at the Conservatoire des Arts et Metiers in Paris, a national university.

203-2727 Portage Avenue, Winnipeg, Manitoba Canada R3J 0R2
Tel: 204-957-1567
Email: newideas@fcpp.org

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EXECUTIVE SUMMARY

Demographia Housing Affordability in Canada assesses middle-income housing affordability (Section 1) in 46 markets.

Housing affordability is more than house prices—it is house prices relative to income. Price-to-income ratios are frequently used to evaluate housing affordability. They have been used by the World Bank, the United Nations, the Organization for Economic Cooperation and Development, and the International Monetary Fund and other organizations. *Demographia* uses the "median multiple," which is the median house price divided by the pre-tax median household income.

In Canada, Australia, Ireland, New Zealand, the United Kingdom and the United States, price-to-income ratios were at or below 3.0 as late as the early 1990s. *Demographia* uses the median multiple housing affordability ratings in Table ES-1.

Table ES-1: *Demographia* Affordability Ratings

Housing Affordability Rating	Median Multiple
Affordable	3.0 & Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 & Over

Median multiple: Median house price divided by median household income

Housing Affordability in Canada: The Context

Among the six major markets (now over 1,000,000 population), housing remained comparatively affordable from 1970 to the mid-2000s, though the Vancouver market had become severely unaffordable by 2005. Since the mid-2000s, however, housing affordability has deteriorated even further.

Housing Affordability in 2022

In 2022, there were 24 "severely unaffordable" housing markets out of the 46 rated. This is up from 18 in 2019. There are only three "affordable" markets, which is down from eight in 2019. The housing affordability ratings are summarized in Table ES-2. Affordability ratings by housing market are shown in Table 4 (alphabetical) and Table 5 (by housing affordability), both in the report proper.

During the pandemic there has been an important trend toward working at home ("telecommuting"), and many households entered the housing market, seeking more living space (both inside the house and outside). This has resulted in a "demand shock" that

Table ES-2: Housing Affordability Ratings

Rating	Median Multiple	No. of Markets
Affordable	3.0 & Under	4
Moderately Unaffordable	3.1 to 4.0	14
Seriously Unaffordable	4.1to 5.0	4
Severely Unaffordable	5.1 & Over	24
Total Markets		46

worsened housing affordability. The demand for housing rose faster than could be readily supplied by developers and builders.

Severely unaffordable housing is concentrated in British Columbia and Ontario. By far the most severely unaffordable major markets are Vancouver and Toronto, which are also rated the third and tenth least affordable among the 94 markets in *Demographia International Housing Affordability* in 2022.

Severely unaffordable housing has spread beyond Vancouver to other British Columbia markets and beyond Toronto to other Ontario markets. Net interprovincial migration has increased away from Vancouver and Toronto, while the other markets have gained, as households have sought more affordable housing.

Four markets remain affordable: Moose Jaw (SK), Fort McMurray (AB). Saguenay (QC) and Fredericton (NB).

From Despair to Opportunity

Over the past year, various analyses of the Canadian housing market have suggested that there is little hope to solve Canada's housing crisis in a manner that would produce affordability and restore the Canadian Dream of home ownership. There are concerns about the daunting extent of the need, the capacity of the home building. Yet, Canada has a strong home building and land development industry, which some of the largest companies in the world. Canada's housing affordability crisis has been building for decades and will take time to resolve.

The problem is that urban containment regulation has driven the price of land so high that commercial interests cannot any longer supply housing to a large portion of the middle income households. This is not surprising, because raising land prices was an intention of urban containment. Land costs differ markedly between markets and are responsible for the largest differences in housing affordabilility.

Despite the planning orthodoxy to the effect that middle-income households now prefer to live in apartments rather than houses and in high densities, Canadian households are more attracted to detached and other ground oriented housing.

Higher housing prices, by definition, intensify inequality. Public policies, such as urban containment, drive up the price of land result leading to government-induced inequality.

There are alternatives that can restore housing affordability. At this time, the priority being selected by many is migration to much more affordable housing markets. The unprecedented migration of people away from the larger CMAs to the census agglomerations (CAs) as well as to rural areas demonstrates the attractivenss of this alternative.

So long as there are markets that are more affordable, such as in the Prairies and the Maritimes, households will be able to move to improve their standard of living. As more households move to more affordable markets, demand could be reduced in British Columbia, Ontario and the Montreal area, leading more affordable housing in these markets.

However, unless today's more affordable markets remain more affordable, they, like the now severely unaffordable peripheral markets of British Columbia and Ontario are likely to become severely unaffordable. This would foreclose the opportuity for home ownership among future generations, also making Canada a less attractive international migration destination.

1.0: EVALUATING HOUSING AFFORDABILITY

Demographia Housing Affordability in Canada rates middle-income housing affordability in the third quarter of 2022 for 46 housing markets (census metropolitan areas). *Demographia Housing Affordability in Canada* is a supplement to *Demographia International Housing Affordability*[1] which covered 92 major housing markets (1,000,000 or more population) in 8 nations (Australia, Canada, China [Hong Kong], Ireland, New Zealand, Singapore, the United Kingdom and the United States).[2] Canada's six major census metropolitan areas (CMAs) were included in the earlier report (Toronto, Montreal, Vancouver, Calgary, Ottawa-Gatineau and Edmonton) and are included with 40 additional markets in this report.

1.1: DEFINING HOUSING AFFORRDABILITY

Housing affordability is more than house prices—it is house prices in relation to income.

Demographia Housing Affordability in Canada uses the median multiple to rate housing markets. The median multiple is a price-to-income ratio of the median house price divided by the gross pre-tax median household income (median house price in years of income). Price-to-income ratios have been widely used, such as by the World Bank,[3] the United Nations, the Organization for International Cooperation and Development (OECD), the Joint Center for Housing Studies at Harvard University, and others.

Median housing affordability measures are preferable to averages, which can be skewed upward by substantially higher values, which can make them less representative of prices paid by middle-income households.

1.2: RATING HOUSING AFFORDABILITY (THE MEDIAN MULTIPLE)

Demographia rates middle-income housing affordability in four categories, ranging from the most affordable ("affordable") to the least affordable ("severely unaffordable"), as is indicated in Table 1.

In Canada, Australia, Ireland, New Zealand, the United Kingdom and the United States, price-to-income ratios were at or below 3.0 as late as the early 1990s.[4] This was before the broad implementation and strengthening of restrictive land use policies (most importantly, containment policy), which have been identified with deteriorating housing affordability (Section 5). These relationships, in which house values have increased much more than rents, are consistent with the international OECD finding that the principal driver of middle-class expenditure in recent decades has been principally in the cost of owned housing.[5] In many markets, severely unaffordable housing drives a cost of living crisis (Box 1).

Table 1: Housing Affordability Ratings

Housing Affordability Rating	Median Multiple
Affordable	3.0 and Under
Moderately Unaffordable	3.1 to 4.0
Seriously Unaffordable	4.1 to 5.0
Severely Unaffordable	5.1 and Over

Median Multiple: Median house price divided by median household income.

1.3: EVALUATING AFFORDABLITY IN METROPOLITAN HOUSING MARKETS

Housing affordability measures are often evaluated and compared at the national level. However, this masks substantial differences in affordability between housing markets. For example, in this edition, the least affordable market (Vancouver) has a median multiple five times that of the most affordable market (Moose Jaw). Because of this, *Demographia* focuses at the housing market level (metropolitan area) because there are substantial affordability variations within Canada (and other nations). *Demographia* does not evaluate affordability within metropolitan areas, such as for individual municipalities or neighbourhoods.

Housing affordability comparisons are made:

(1) between housing markets (such as comparison between the Vancouver and the Saskatoon markets) or,

(2) over time within the same housing market (such between years in the Vancouver market).

2.0: HOUSING AFFORDABILITY IN CANADA IN 2022

In 2022, there were 24 "severely unaffordable" housing markets out of the 46 rated in Canada. This is up from 18 in 2019, the last pre-pandemic year. There were only four "affordable" markets, which is down from eight in 2019. The housing affordability ratings are summarized in Table 2.

2.1: SEVERELY UNAFFORDABLE HOUSING MARKETS

Demand for housing, especially in suburban, exurban and rural areas increased during the pandemic. Many households sought more living space (inside houses and outside in yards or gardens), as working at home increased substantially. This has resulted in a "demand shock" ("a sudden unexpected event that dramatically increases or decreases demand for a product or service, usually temporarily"[6]) The demand for housing rose faster than could be readily supplied by developers and builders. House prices increased substantially. The rise in interest rates has now added substantially to the cost of home purchases.

Table 2: Housing Affordability Ratings, Canada 2022

Rating	Median Multiple	No. of Markets
Affordable	3.0 and Under	4
Moderately Unaffordable	3.1 to 4.0	14
Seriously Unaffordable	4.1 to 5.0	4
Severely Unaffordable	5.1 and Over	24
Total Markets		46

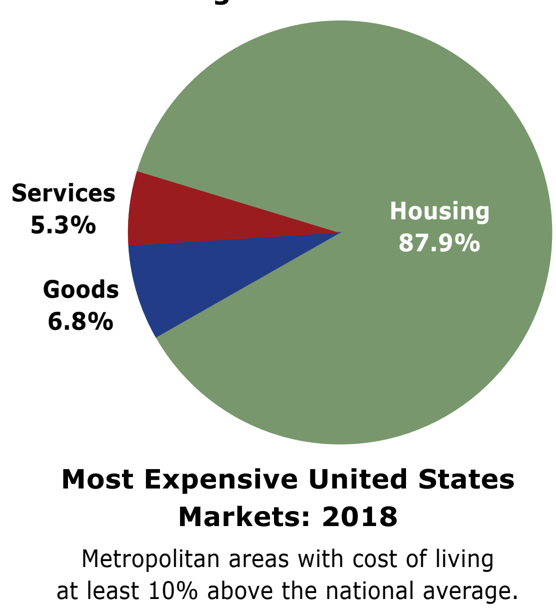
Only two of the six major markets were severely unaffordable before the pandemic (2019), with median multiples above 5.0 (Vancouver and Toronto). By 2022 Montreal and Ottawa had also become severely unaffordable. Edmonton and Calgary were moderately unaffordable.

Box 1

HOUSING COSTS DRIVE COST-OF-LIVING DIFFERENCES

Richard Florida of the University of Toronto concluded that "differences in living costs are basically all about housing." Further, Bloomberg reports that nearly all of London's (UK) higher cost of living is associated with higher housing costs. Similarly, in the United States more than 85% of cost of living differences between metropolitan areas (Figure 1) consist of differences in housing affordability.

Figure 1: Housing Share of Higher Costs of Living



2.2: SEVERELY UNAFFORDABLE MARKETS BY PROVINCE

Severely unaffordable markets are concentrated in British Columbia and Ontario (Table 3). All of the eight British Columbia markets are severely unaffordable, with the median multiples averaging 9.6. In Ontario 14 of the 15 rated markets are severely unaffordable, with the median multiples averaging 7.2. Three other provinces or territories have a single severely unaffordable market, including Prince Edward Island, Nova Scotia and Quebec.

There are no severely unaffordable markets in Alberta, Manitoba, Newfoundland & Labrador, New Brunswick, Saskatchewan, or the Yukon Territory. No markets were rated in the Northwest Territories or Nunavut.

Table 3: Housing Markets (CMA), Rated Severely Unaffordable by Province (2022)

Province	Number of Housing Markets Rated	Number of Severely Unaffordable Markets	Census Metropolitan Area	Median Multiple
British Columbia	8	100%	Vancouver, BC	12.0
			Courtenay, BC	10.2
			Nanaimo, BC	9.8
			Victoria, BC	9.8
			Chilliwack, BC	9.3
			Kelowna, BC	9.3
			Fraser Valley, BC	8.4
			Kamloops. BC	8.2
Ontario	15	93%	Toronto, ON	9.5
			Guelph, ON	8.9
			St. Catharines-Niagara, ON	8.4
			Oshawa, ON	7.8
			Barrie, ON	7.6
			Brantford, ON	7.6
			Kitchener-Waterloo, ON	7.5
			Peterborough, ON	7.5
			Hamilton, ON	7.3
			London, ON	7.3
			Kingston, ON	6.9
			Windsor, ON	6.0
			Ottawa-Gatineau, ON-QC	5.2
Nova Scotia	2	50%	Halifax, NS	5.7
Prince Edward Island	1	100%	Charlottetown, PEI	5.5
Quebec	7	14%	Montreal, QC	5.4
Alberta	5	0%		
Manitoba	1	0%		
Newfoundland & Lbdr	1	0%		
New Brunswick	3	0%		
Saskatchewan	3	0%		
Yukon	1	0%		

Note: Ottawa-Gatineau shown under Ontario

Vancouver was the third least affordable market out of the 94 major markets in this year's *Demographia International Housing Affordability*. Only Hong Kong and Sydney were more unaffordable. Toronto was the 10th least affordable.

Vancouver and Other BC Markets

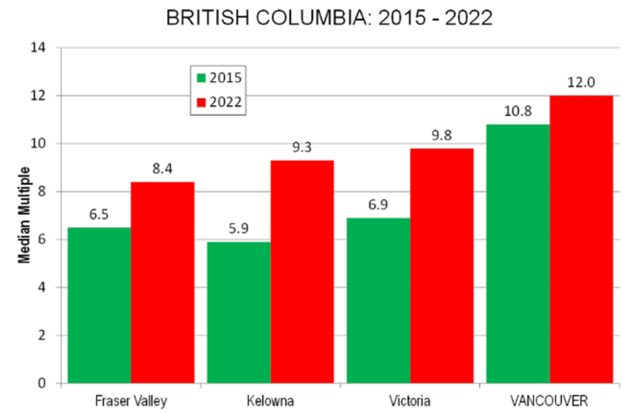
The Vancouver market has had the most restrictive land use regulations in Canada for at least a half century. The housing market's urban containment policy (with an agricultural land reserve, a form of urban growth boundary) is administered by Metro Vancouver, a regional authority established by the province. Vancouver has reached a median multiple of 12.0, which is triple that of 1971.

There has been strong net intraprovincial outmigration of 65,000 over the past five years (between 2017/2018 and 2021/2022), to other British Columbia markets from Vancouver. This migration has been driven, at least in part, by households seeking lower house prices outside the Vancouver CMA. At the same time, the Vancouver market gained 25,000 migrants from other provinces, for a total internal out-migration of 40,000.

Along with this new demand there have been substantial house price increases where intra-provincial migrants are moving. Housing is severely unaffordable in Courtenay (10.2), Victoria (9.8), Nanaimo (9.8), Chilliwack (9.3), Kelowna (9.3), the Fraser Valley (8.4), Kamloops (8.2) and Chilliwack (7.6).

Figure 2 illustrates the deterioration in housing affordability from 2015 to 2022 in the four British Columbia markets for which there is data. The average increase in house prices relative to inflation for the three markets outside Vancouver was equal to 2.7 years of median pre-tax household income. This equates to an annual increase of house costs equal to to 4.7 months of median household income over each of the seven years.

Fig. 2: Housing Affordability Deterioration



Source: Demographia.

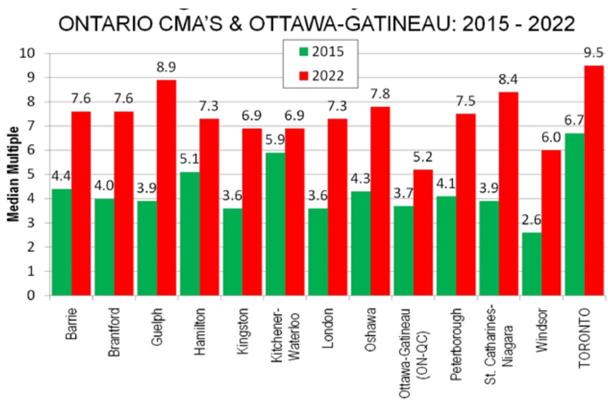
Toronto and Nearby Markets

In Toronto, the housing affordability loss has been associated with provincial imposition of urban containment policy9 This program, implemented in the mid-2000s ("Places to Grow") includes a greenbelt, a form of urban growth boundary. Since then, Toronto's housing affordability has deteriorated, with a median multiple of 9.5 in 2022.

The Toronto market has experienced a net internal migration loss over the past five years of 325,000, nearly as many people as live in Markham. About 93 percent of the outmigration (303,000) was to other markets in Ontario. As in Vancouver, this migration has been driven, at least in part, by households seeking housing that is less unaffordable.

This huge demand switch to Ontario markets outside Toronto, along with a similar regulatory structure has been accompanied by substantial housing affordability losses. For example, since 2015, median house prices have increased from the equivalent of one year's median household income in Kitchener-Waterloo to 5.3 years in Guelph. (Figure 3) The average increase in house prices relative to inflation for the 12 markets outside Toronto was equal to 3.2 years of median pre-tax household income. This equates to an annual increase of house costs equal to to 5.5 months of median household income over each of the seven years.

Fig. 3: Housing Affordability Deterioration



Source: Demographia.

Other Severely Unaffordable Markets

Three additional markets were severely unaffordable, including Halifax (5.7), Charlottetown (5.5), and Montreal (5.4).

Seriously Unaffordable Markets

In addition to Calgary (4.3), Sherbrooke at (4.2), and Whitehorse (4.9) were seriously unaffordable.

Moderately Unaffordable Markets

Canada's most affordable major market is Edmonton (4.0), which is rated modera6tely unaffordable (median multiples from 3.1 to 4.0). Other moderately unaffordable markets were Cape Breton, Regina, and Trois-Rivieres, at 3.1, Medicine Hat, at 3.4, Lethbridge, Quebec and Saint John and Saskatoon, at 3.5, Winnipeg, at 3.6, Moncton, Red Deer and Thunder Bay, at 3.7, St. John's, at 3.8 and Drummondville, at 4.0.

Affordable Markets

There are four "affordable" markets (median multiple of 3.0 and below), with Moose Jaw, SK, the most affordable, with a median multiple of 2.4, followed by Fort McMurray, AB, at 2.5, Saguenay (QC) at 2.6, and Fredericton (NB) at 2.9. No major markets are rated "affordable."

All Markets

Affordability ratings by housing market are shown in Table 4 (alphabetical) and Table 5 (by housing affordability rank).

Table 4: Housing Affordability Ranking (Canadian Markets, Q3/2022, Alphabetical)

Intl. Rank	Canada Rank	Market	Median Multiple
	33	Barrie, ON	7.6
	33	Brantford, ON	7.6
21	21	Calgary, AB	4.3
	5	Cape Breton, NS	3.1
	25	Charlottetown, PEI	5.5
	40	Chilliwack, BC	9.3
	45	Courtenay, BC	10.2
	18	Drummondville, QC	4.0
11	18	Edmonton, AB	4.0
	2	Fort McMurray, AB	2.5
	37	Fraser Valley, BC	8.4
	4	Fredericton, NB	2.9
	39	Guelph, ON	8.9
	26	Halifax, NS	5.7
	29	Hamilton, ON	7.3
	36	Kamloops. BC	8.2
	40	Kelowna, BC	9.3
	28	Kingston, ON	6.9
	31	Kitchener-Waterloo, ON	7.5
	9	Lethbridge, AB	3.5
	29	London, ON	7.3
	8	Medicine Hat, AB	3.4
	14	Moncton, NB	3.7
50	24	Montreal, QC	5.4
	1	Moose Jaw, SK	2.4
	43	Nanaimo, BC	9.8
	35	Oshawa, ON	7.8
46	23	Ottawa-Gatineau, ON-QC	5.2
	31	Peterborough, ON	7.5
	9	Quebec, QC	3.5
	14	Red Deer, AB	3.7
	5	Regina, SK	3.1
	3	Saguenay, QC	2.6
	9	Saint John, NB	3.5
	9	Saskatoon, SK	3.5
	20	Sherbrooke, QC	4.2
	37	St. Catharines-Niagara, ON	8.4
	17	St. John's, NL	3.8
	14	Thunder Bay, ON	3.7
85	42	Toronto, ON	9.5
	5	Trois-Rivieres, QC	3.1
93	46	Vancouver, BC	12.0
	43	Victoria, BC	9.8
	22	Whitehorse, YT	4.9
	27	Windsor, ON	6.0
	13	Winnipeg, MB	3.6

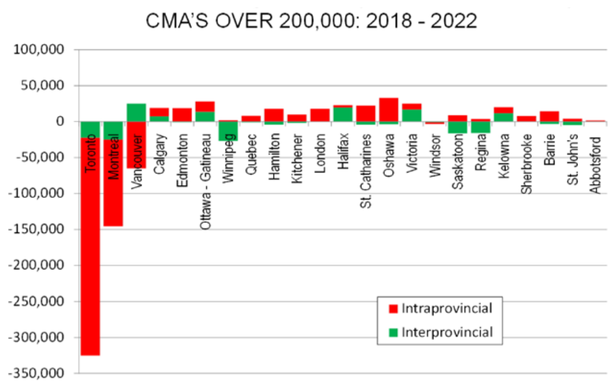
Source: International Rank: Demographia International Housing Affordability 2023 (94 Markets).

3.0: HOUSING AFFORDABILITY AND INTERNAL MIGRATION

As is indicated above, there has been substantial internal migration away from Canada's most unaffordable housing markets, Many if these more affordable markets have now become severely unaffordable as a result of the heightened demand and restrictive regulatory systems not capable of authorizing sufficient housing at middle-income prices.

Montreal has experienced a similar dynamic, having evolved to severe unaffordability in recent years. Like in Vancouver and Toronto, Montreal has hemorrhaged net internal migrants, losing 145,000 in the last five years. Of these, 121,000 (83%) moved to another housing market in Quebec. Unlike Vancouver and Toronto, the additional demand has not led to severe unaffordability elsewhere in the province.

Fig. 4: Net Internal Migration (Within Canada)



Source: Demographia.

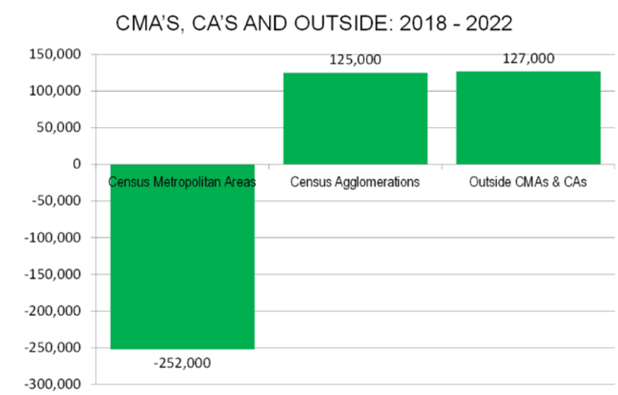
Figure 4 shows the net internal migration for the CMAs with 200,000 or more population. Most of the net migration has been intraprovincial, with important exceptions. Halifax (87%), Victoria (67%), and Kelowna (57%) had more net interprovincial than intraprovincial in migration. Winnipeg, Saskatoon and Regina had losses, which were dominated by net interprovincial outmigration.

Moving from the Biggest Cities

However, the huge net internal migration losses in Toronto, Montreal and Vancouver have changed the focus of migration in Canada. The 35 CMAs[7] which lost a net 252,000 internal migrants in the last five years, to the Census Agglomerations (CAs),[8] which gained 125,000 and to areas the outside the CAs, which gained 127,000. In recent years, there has been considerable internal migration (within Canada) away from the least affordable markets to markets that were more affordable (Figure 5).

This movement of people from CMAs to much smaller CAs and to areas outside may be unprecedented. The international trend for decades, and that of Canada, has been for net internal migration to be toward larger, rather than smaller communities.

Fig. 5: Net Internal Migration (By Community Size)



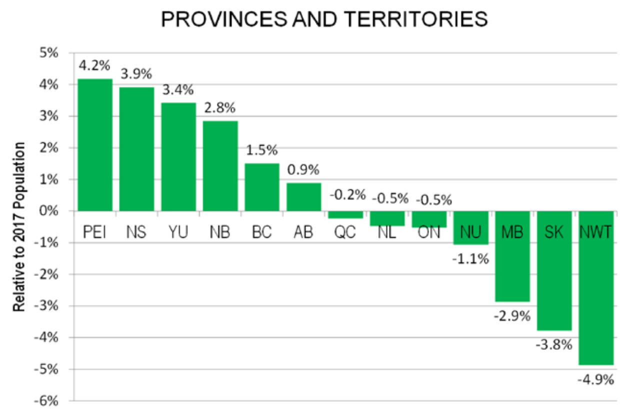
Source: Derived from Statistics Canada data.

Rise of the Maritimes

An important recent development has been the strong performance of the Maritimes in net interprovincial migration. The three Maritime Provinces had the highest net interprovincial migration rates in Canada, with Prince Edward Island at 4.2% of its 2017 population, followed by Nova Scotia, at 3.9% and New Brunswick, at 2.8%. Yukon was highest among the territories, at 3.4%. British Columbia had net interprovincial migration of 1.5% and Alberta 0.9% (Figure 6).[9] British Columbia's gain occurred despite the large interprovincial loss from the Vancouver CMA (above).

Generally, housing in the Maritimes is more affordable than in Toronto, Montreal and Vancouver, and its recent increase in net internal migration seems likely to have resulted, at least in part, from its increasing affordability advantage. The least affordable market in the Maritimes is Halifax, with a severely unaffordable median multiple of 5.7. Yet, outside Halifax, Nova Scotia appears to be considerably more affordable, such as in Cape Breton (above). Quebec had a net interprovincial loss of 0.2% and Ontario lost 0.5%.

Fig. 6: Net Interprovincial Migration (2018-2022)



Source: Derived from Statistics Canada data.

Table 5: Housing Affordability Ranking (Canadian Markets, Q3/2022, Affordability)

Intl. Rank	Canada Rank	Market	Median Multiple
	1	Moose Jaw, SK	2.4
	2	Fort McMurray, AB	2.5
	3	Saguenay, QC	2.6
	4	Fredericton, NB	2.9
	5	Cape Breton, NS	3.1
	5	Regina, SK	3.1
	5	Trois-Rivieres, QC	3.1
	8	Medicine Hat, AB	3.4
	9	Lethbridge, AB	3.5
	9	Quebec, QC	3.5
	9	Saint John, NB	3.5
	9	Saskatoon, SK	3.5
	13	Winnipeg, MB	3.6
	14	Moncton, NB	3.7
	14	Red Deer, AB	3.7
	14	Thunder Bay, ON	3.7
	17	St. John’s, NL	3.8
	18	Drummondville, QC	4.0
11	18	Edmonton, AB	4.0
	20	Sherbrooke, QC	4.2
21	21	Calgary, AB	4.3
	22	Whitehorse, YT	4.9
46	23	Ottawa-Gatineau, ON-QC	5.2
50	24	Montreal, QC	5.4
	25	Charlottetown, PEI	5.5
	26	Halifax, NS	5.7
	27	Windsor, ON	6.0
	28	Kingston, ON	6.9
	29	Hamilton, ON	7.3
	29	London, ON	7.3
	31	Kitchener-Waterloo, ON	7.5
	31	Peterborough, ON	7.5
	33	Barrie, ON	7.6
	33	Brantford, ON	7.6
	35	Oshawa, ON	7.8
	36	Kamloops. BC	8.2
	37	Fraser Valley, BC	8.4
	37	St. Catharines-Niagara, ON	8.4
	39	Guelph, ON	8.9
	40	Chilliwack, BC	9.3
	40	Kelowna, BC	9.3
85	42	Toronto, ON	9.5
	43	Nanaimo, BC	9.8
	43	Victoria, BC	9.8
	45	Courtenay, BC	10.2
93	46	Vancouver, BC	12.0

Source: International Rank: *Demographia International Housing Affordability 2023* (94 Markets).

4.0: FROM DESPAIR TO OPPORTUNITY

Over the past year, various analyses of the Canadian housing market have suggested that there is little hope to solve Canada's housing crisis in a manner that would produce affordability and restore the Canadian Dream of home ownership.While the situation is difficult, our view is that it is not without hope.

Descriptions of Despair

Perhaps the most significant examples have been a report by BMO Economics entitled *Catch-'23: Canada's Affordability Conundrum,* and an article by Michelle Cyca in Maclean's entitled, *The End of Homeownership: For generations, middle-class Canadians have been sold on the promise of homeownership. The promise was always flawed. Today it's simply broken.*

These assessments are understandable, given the scale of house price increases in Canadian housing markets, especially in the Vancouver and Toronto markets, and to a lesser degree in many other markets. Yet, there is still hope to retain the Canadian Dream at least in some parts of the country, as is described below.

It was noted, for example, that despite record recent home building numbers, the housing supply (and housing affordability) cannot be quickly increased because the industry is operating at capacity. Canada's strong population growth and higher immigration make that task even more daunting. On the other hand, severely unaffordable housing is not new to Canada. The housing crisis and its roots are about five decades old in the Vancouver market. The housing crisis dates to the late 2000s in the Toronto market. Severely unaffordable housing has spread to smaller markets in British Columbia and Toronto. And, recently, housing has become severely unaffordable in the Montreal CMA.

Futher, there is little reason \to doubt the ability of the Canadian home building market to supply increased demand. Canada is home to world class home builders and land developers, the largest of which are among the strongest in the US market. It can be expected that where detached and ground oriented housing can be built with a competitive profit, the supplier market will be there or will soon develop.

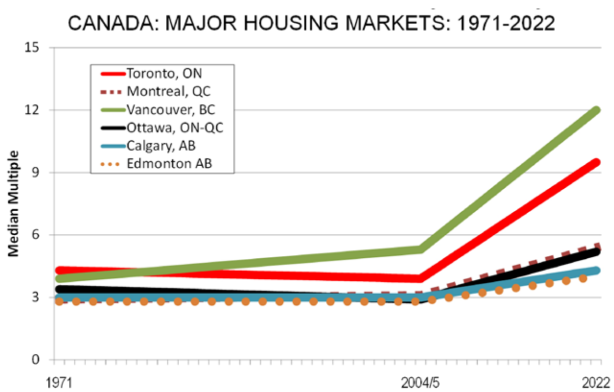
Some economists are surprised that the bubble values of housing in Vancouver and Toronto have not been punctured by a seemingly inevitable bust. But these values are buttressed by land use regulations, and artificial land scarcities that have proven to be extremely resistant to reform around the world, despite their deleterious impact on housing affordability and middle-income affluence. It should not be surprising that in the largest CMAs house prices have skyrocketed above incomes and spread to nearby housing markets.

There is concern about deteriorating housing affordability impacts as for example, residents of Ontario move to the Maritimes in numbers that increase demand that exceeds supply. Despite the rising house prices, affordability is far better in the Maritimes, the Prairies and Quebec outside the Montreal market than in Ontario or British Columbia. This provides opportunities for middle income households, younger households and the rising immigrant population to afford their own homes. But it is imperative for land use systems to be relaxed sufficiently in these more affordable markets to enable the demand to be met, without destroying affordability.

Housing Affordability: Recent Historical Context

There was relative stability in housing affordability for more than three decades (1971 to 2005), as house prices increased little in relation to incomes. The average median multiple among the major CMAs was 3.5 in the mid 2000s, little above the 1971 level. There has, however, been rapid deterioration since the middle 2000s, with the average median multiple nearly doubling, to 6.7. The trend of median multiples in the six major CMAs is indicated in Figure 7.

Fig. 7: Middle-Income Affordability History



Source: Derived from Statistics Canada data, and Demographia.

It is widely agreed that Canada has a severe housing affordability crisis. A BOMC Economics report posited: "… there isn't much debate that Canada's home price inflation has been much stronger than in most other major economies over a long period of time." The divergence with the U.S. market over the past 15 years is quite stark and cannot be explained away by the small differences in interest rate policies or economic growth.

At the same time, Canada's housing crisis is not national, it varies materially from urban area to urban area.

Urban Containment

Before the pandemic demand shock (2020), each major market in which housing became severely unaffordable in Canada followed policy interventions that, based on economic principles, could have been expected to produce such a result. That form is urban containment, which rigidly limits urban land expansion well below demand levels, leading to higher prices.

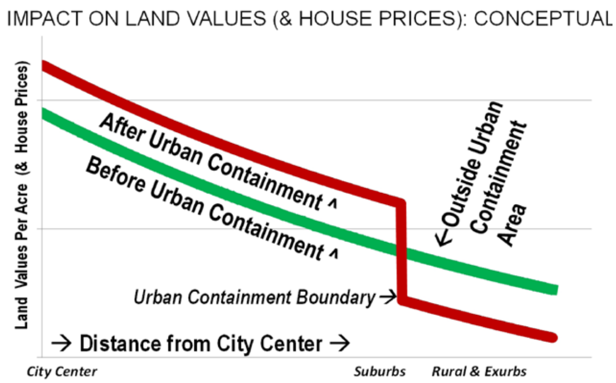
Prominent urban planners Arthur C. Nelson and Casey J. Dawkins provide the definition: "… urban containment involves drawing a line around an urban area. Urban development is steered to the area inside the line and discouraged (if not prevented) outside it." The best known urban containment policies are greenbelts and urban growth boundaries. The problem is that the amount of land available for urban development is severely rationed, which in the face of continuing demand for new housing land, forces up the prices.

Urban containment seeks to stop urban expansion, popularly called "urban sprawl" (Box 2). Urban expansion occurs organically as population increase. Urban containment may be the most housing affordability destructive land-use regulation. Indeed, Nelson and Dawkins note that urban containment "is intended" to increase land costs within the UGBs."Urban containment succeeded at this, but debilitated the living standards of middle-income households with higher than market housing prices or by pricing them out of the market.

In 2019, the last year before the pandemic demand shock, all of the severely unaffordable housing markets in Demographia International Housing Affordability were subject to urban containment. No markets without urban containment were rated severely unaffordable.

The impact of containment policies on land values is illustrated in Figure 8. Land values are forced up dramatically near the urban growth boundary or inner boundary of a greenbelt and throughout the area within, in effect setting a floor value on land (the "urban containment land value effect."

Fig. 8: Urban Containment Land Value Effect



Source: Adapted from Lincoln Institute of Land Use Policy (1992).

With urban containment land prices up so much that the builders were no longer able to supply housing commercially to much of the middle-class. This increased the demand for "affordable housing" subsidies, which were falling far short of government commitments even before urban containment.

Alain Bertaud, former World Bank Principal Planner writes "arbitrary limits on city expansion such as greenbelts or urban growth boundaries" predictably result in "higher prices."

Formerly competitive land markets, with their low values have been transformed into permanent seller's markets—too expensive to build housing for the broad middle-class. International housing expert Shlomo Angel stresses that: "supply must be adequate to allow competition to determine land prices."

There must be a sufficient supply of competitively priced homes to maintain housing affordability. But the land values in many urban containment markets have become far too large for commercially produced middle-income housing.

Provincial Housing Crises

Canada's housing crisis is not so much national as it is provincial. Provinces largely control land use policy within their jurisdictions. The regulatory systems that have produced the widely differing housing affordability results have been mandated provinces, and in some cases by regional or metropolitan authorities.

The province of British Columbia, established Agricultural Land Reserves (ALRs) in 1973, which are overseen by regional districts. The ALR around the Vancouver urban area has operated as a strict urban growth boundary since that time (under the jurisdicttion of the Metro Vancouver Regional District). The median multiple in the Vancouver CMA has skyrocketed.

In the Greater Golden Horseshoe, the Ontario government imposed the "Places to Grow" program in the middle-2000s, with its Greenbelt. Average house prices in Toronto doubled between 1999 and 2011, while incomes stagnated. Indeed, this author warned in a 2004 report that the proposed policy would lead to much worsened housing affordability.[10]

The net effect was to force all urban development in these two dynamic and fast growing housing markets into severely constrained land areas. There have been similar results the London, San Francisco, Portland, Seattle, Sydney, and Melbourne markets and elsewhere.[11]

The worst housing affordability is in British Columbia (in Vancouver and other markets) and Ontario (especially the Toronto market and more recently other Greater Golden Horseshoe markets). Vancouver's median multiple of 12.0 is more than double the income adjusted prices of Montreal, despite the latter's severe unaffordability. Vancouver's median multiple is around three times those of Calgary, Edmonton, Winnipeg and Quebec (CMA) and four times those of Regina and Fredericton. Toronto's median multiple of 9.5 is more than double those of Calgary, Edmonton Winnipeg and Quebec, and triple those of Regina and Fredericton. Much of Canada remains far more affordable than Vancouver and Toronto. The challenge is to keep it so (below).

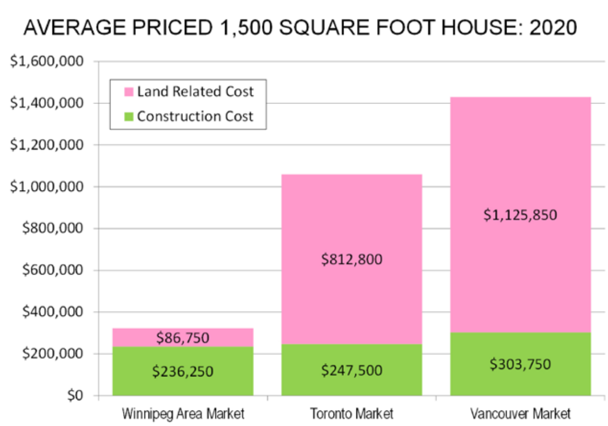
Land and Construction Costs

The source of the rising house prices in in urban containment markets is principally in land costs.This is illustrated by comparing the costs of an average priced 1,500 square foot single-family house between the Vancouver, Toronto and Winnipeg housing markets.[12]

In 2020, construction costs per square foot were only 5 percent more in the Toronto area than in the Winnipeg area. Yet the sale price for the average detached house in the Toronto area was at least 225 percent more than in Winnipeg.[13]

The differences are even greater in comparison with Vancouver. The construction cost for the average detached house would be 29 percent greater in the Vancouver area than in the Winnipeg area. However, the average sale price in Vancouver was about 340 percent higher than in Winnipeg (Figure 9).

Fig. 9: Vancouver, Toronto and Winnipeg Costs

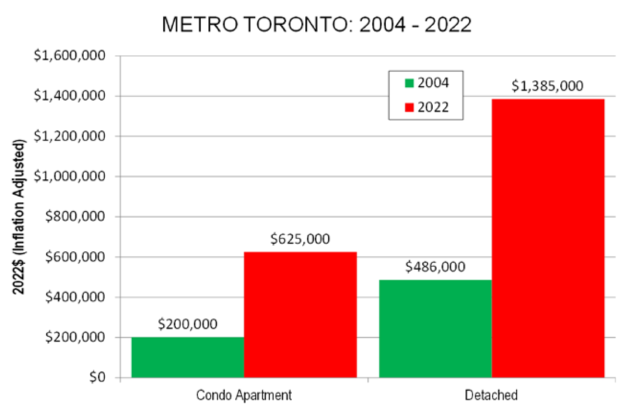


Source: Estimated from Altus and RBC.

Both Vancouver and Toronto have strict urban containment policy, which is associated with higher land costs. The Winnipeg market is more lightly regulated. Land costs have driven the housing affordability crisis in urban containment markets, as is indicated above. Before urban containment, builders could generally assume that the cost of serviced land would represent approximately 20 percent of the total house construction and land cost.[14]

The effect has been so great in Toronto that by 2022, that the median price of a condominium apartment exceeded the inflation adjusted median price of a detached house in 2004 (Figure 10).[15]

Fig. 10: Detached and Condo Price Escalation



Source: Derived from TREB and Statistics Canada.

Box 2

URBAN SPRAWL

For decades, urban planning has attempted to control or even stop urban expansion (pejoratively called "urban sprawl"), using urban containment. The problem is that by severely limiting the land on which residences can be constructed, an excess of consumer demand over supply occurs.

In *Rethinking Urban Sprawl: Moving Toward Sustainable Cities,* the Organisation for Economic Cooperation and Development OECD concludes that urban containment strategies (such as urban growth boundaries and greenbelts) must be accompanied by sufficient land for urban expansion to maintain housing affordability. This land needs to be competitively priced to keep house prices from rising disproportionately compared to incomes. Urban containment policy is typical in the least affordable markets.

International housing expert and New York University Marrron Institute Director of Urban Expansion Shlomo Angel found that: "… the explicit containment of urban expansion—by greenbelts, as in Seoul, Korea or in English cities, by urban growth boundaries, as in Portland, Oregon, or by environmental restrictions as in California—has inevitably been associated with declines in housing affordability."

Preservation of farmland is often the principal argument in favor of urban containment. Yet, urban development consumes very little farmland.

For example, all of the urbanization ("population centres") in Canada, according to 2021 census data, covers less than 18,000 square kilometers. By contrast, about 82,000 square kilometers of farmland was withdrawn from production between 1951 and 2021. This is more land than is covered by New Brunswick and Prince Edward Island (76,000 square kilometers). Moreover, the urban land is only 2.6% of the peak agricultural land (1951).[16]

All of the land that has been urbanized since European settlement in Canada is the equivalent of less than one-quarter of the land *withdrawn* from agricultural production.

Housing Preferences: Myth and Reality

There are serious misconceptions of Canadian household housing preferences, according to polling by Sotheby's International Realty Canada and the Mustel Group. As indicated in its "Modern Family Home Ownership Trends Report: The Evolution of the Canadian Dream" Sotheby's and Mustel found a "growing gap between the real estate dreams and the actual home ownership realities of young families—particularly as it relates to the dream of single family home ownership" They characterized the conclusions as dispelling "myths about young, urban families' housing preferences."

> "…proponents of urban densification now argue that the desire to live in condominiums, attached homes and duplex/triplex/multiplex units has

> increased across every demographic group, including a new generation of families who prefer higher-density housing and an urban lifestyle over the traditional single family home 'dream.'" The Sotheby's survey findings "reveal a more complex picture." That picture is of young urban families overwhelmingly preferring detached houses, secondarily preferring ground oriented townhouses and semi-detached, and decidedly not the condominiums into which current plans seek to drive them. Nor are families likely to seek the accessory units being built in back yards."

These findings are similar to those of Toronto Metropolitan University researchers, who find a strong preference for "ground-oriented" housing, especially detached as well as semi-detached.[17]

Government Induced Inequality

Whatever its advantages, urban containment is associated with higher costs housing costs, and higher costs of living. Wherever house prices rise faster than incomes, greater inequality of results can be expected. In effect, higher house prices relative to incomes interfere materially with equality of opportunity, by putting out of reach housing that would have previously been accessible to middle and lower income households. Urban containment produces such effects, which can be characterized as government induced inequality. This has happened, most substantially in British Columbia and Ontario markets as well as others in Canada, and in many markets around the world.

Assessment

The housing affordability losses and resultant wealth inequality of Canada's severely unaffordable markets has become a government failure of astounging proportions, along with similarly regulated markets in the United Kingdom, Australia, New Zealand, the United States and elsewhere.

But housing affordability can be preserved in Canada outside the markets that have become severely unaffordable. The public policy objective needs to be for the housing market to deliver house price increases that *do not* rise relative to household incomes, as was generally the case before the imposition of urban containment.

To accomplish this land use authorities need to monitor the market, for example by annually publishing and monitoring evaluative measures, such as the median multiple and taking regulatory easing to keep housing affordable. If house prices rise at rates above that of incomes, regulations should be eased, especially any restrictions on the urban fringe, because of its importance in determining land prices throughout the market. Government should remove the political barriers that preclude the commercial market from supply in the housing Canadians want, at a price they can afford. This was the case before urban containment and is still the case in many Canadian markets.

Such programs should be adopted by every land use regulatory agency, with the highest priority being in the markets that remain the most affordable.

Other strategies should be employed to develop areas of affordability within the provinces with severely unaffordable housing, especially British Columbia and Ontario. The municipal utility district models of Colorado and Texas could be used to allow private companies to develop greenfield new towns, or portions of the provinces could be set aside as "Housing Opportunity Zones," such as has been proposed for interior of California in the recent Chapman University Center for Demographics and Policy "Housing Report: Blame Ourselves, Not Our Stars."[18]

A housing opportunity zone would eliminate restrictive regulations, such as urban containment barriers, to improve housing affordability.

There are alternatives that can restore housing affordability. At this time, the priority being selected by many is migration to much more affordable housing markets. The unprecedented migration of people away from the larger CMAs to the census agglomerations (CAs) as well as to rural areas demonstrates the attractiveness of this alternative.

So long as there are markets in which housing is more affordable, such as in the Prairies, the Maritimes and elsewhere, households will be able to move to. demand could be reduced in British Columbia, Ontario and the Montreal area, leading to a gradual improve their standards of living.

However, should the planning orthodoxy be embraced in the more affordable Maritime and Prairie markets, they too could become severely unaffordable. This would foreclose the opportunity for home ownership among future generations, also making Canada a less attractive international migration destination. To avoid this, provincial and local governments need to ensure that there is sufficient land available for building to keep house prices from becoming less affordable. Moreover, it will be necessary to avoid the orthodox planning policies that have been so instrumental in the housing crisis in the Vancouver, Toronto and other markets.

METHODOLOGY

House price data is estimated from published real estate industry sources. Median incomes are estimated from official government sources, and updated by more recent economic data to develop a current figure.

ENDNOTES

1. *Demographia International Housing Affordability: 2022 Edition* covered 92 major housing markets (1,000,000 or more population) in 8 nations (Australia, Canada, China (Hong Kong only), Ireland, New Zealand, Singapore, the United Kingdom and the United States).
2. *Demographia International Housing Affordability* provides analysis similar to the major market analysis in the 16 editions of the *Demographia International Housing Affordability Survey,* co-authored by Wendell Cox and Hugh Pavletich (2005 to 2020). The *2020 Demographia International Housing Affordability Survey* was featured in the *Global Housing Watch Newsletter* (April 20, 2020), published by the International Monetary Fund (IMF).
3. *The Housing Indicators Program,* http://siteresources.worldbank.org/INTURBANDEVELOPMENT/Resources/336387- 1169578899171/rd-hs7.htm. Also see Shlomo Angel, *Housing Policy Matters: A Global Analysis.* Oxford University Press, 2000.
4. See: Anthony Richards, *Some Observations on the Cost of Housing in Australia,* Address to 2008 Economic and Social Outlook Conference The Melbourne Institute, 27 March 2008, http://www.rba.gov.au/speeches/2008/sp-so-270308.html. This research included all nations covered in the *Demographia International Housing Affordability Survey* except for Ireland. The Richards research is also illustrated in the of the National Housing Council of Australia, http://www.fahcsia.gov.au/sa/housing/pubs/housing/national_housing_supply/Documents/default.htm (Figure 1.1).
5. Organisation for International Cooperation and Development, *Under Pressure: The Squeezed Middle-Class,* https://www.oecd.org/social/under-pressure-the-squeezed-middle-class-689afed1-en.htm.
6. Adam Barone (May 6, 2022), "Demand Shock," Investopedia, https://www.investopedia.com/terms/d/demandshock.asp.
8. Population 10,000 to under 100,000.
9. Derived from Statistics Canada data.
10. Wendell Cox (2004), *Myths about Urban Growth and the Toronto Greenbelt,* Fraser Institute, https://www.fraserinstitute.org/studies/myths-about-urban-growth-and-toronto-greenbelt.
11. See *Demographia International Housing Affordabiltiy.*
12. Based on the mid-point square foot costs of "Single Family Residential with Unfinished Basement," as reported in Altus Group 2020 Canadian Cost Guide, https://www.altusgroup.com/services/reports/2020-canadian-cost-guide/.
13. RBC Economics (December 2020), *Housing Trends and Affordability,* https://royal-bank-of-canada-2124.docs.contently.com/v/historic-housing-market-rally-made-it-less-affordable-to-own-a-home-in-canada-pdf. Data is for the second quarter of 2020.
14. Discussions with Canadian home builders. See also: Edward Glaeser and Joseph Gyourko (2019), "The Economic Implications of Housing Supply," *Journal of Economic Perspectives.* https://pubs.aeaweb.org/doi/pdf/10.1257/jep.32.1.3.
15. Comparison of median prices in December in 2022$.
16. Calculated from Statistics Canada data.
17. Frank Clayton and Kelly Irish (2017), Overriding Preference for Ground-Related Housing by GTA Millennials and Other Recent and Prospective Buyers, Centre for Urban Research & Land Development, Ryerson University. https://www.torontomu.ca/content/dam/centre-urban-research-land-development/pdfs/Projects/CURReportGTAConsumerPreferences.pdf.
18. Wendell Cox and Joel Kotkin (June 2023), *Housing Form: Blame Ourselves Not Our Stars,* Chapman University, Center for Demographics and Policy, https://www.chapman.edu/communication/demographics-policy/california-housing-report-2023.pdf.

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